

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 COME-00 DODE-00 FPC-01 H-01 INR-07

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OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

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FM AMEMBASSY ANKARA

TO SECSTATE WASHDC 7271

INFO AMCONSUL ADANA

AMCONSUL DHAHRAN

AMCONSUL ISTANBUL

AMCONSUL IZMIR

AMEMBASSY ABU DHABI

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

USINT BAGHDAD

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E.O. 11652: N/A

TAGS: ENRG, EFIN, PFOR, TU, SA, IZ, LY, TU

SUBJ: IRAQI-TURKISH PIPELINE AND TURKEY'S SEARCH FOR CRUDE PETROLEUM

REF: A) 76 AKARA 7182 (NTOAL) B) ANKARA 0728 (NOTAL)

SUMMARY:

1. TURKISH PRESS HAS REPORTED EXTENSIVELY IN RECENT WEEKS ON COUNTRY'S CRUDE PETROLEUM SUPPLY PROBLEM, DISAGREEMENTS WITH IRAQ AND LIBYA OVER PRICING AND CREDIT TERMS, AND VISITS OF LIMITED OFFICIAL USE

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FOREIGN MINISTER CAGLAYANGIL AND OTHER HIGH-LEVEL GOT OFFICIALS TO UAE, SAUDIA ARABIA AND KUWAIT. EMBOFF DISCUSSED PETROLEUM SITUATION WITH SEFVIK ONAT, PETROLEUM OFFICER, BILATERAL ECONOMIC AFFAIRS, MFA. ONAT CONFIRMED THAT TURKEY HAS REACHED AGREEMENT WITH IRAQ AND LIBYA ON CRUDE PRICE AND CREDIT ARRANGEMENTS, BUT THAT GOT IS TILL AWAITING ANSWERS FROM UAE, SAUDIA ARABIA AND KUWAIT ON TURKISH OFFER TO PURCHASE

FROM THEM TOTAL OF 3 MILLION TONS IN CY 1977. END SUMMARY.

2. IRAQ WAS TURKEY'S MAIN CRUDE SUPPLIER IN 1974, 1975 AND 1976. IRAQ SUPPLIED 40 PERCENT OF GOT IMPORTS OF 10 MILLION TONS IN 1974, 75 PERCENT OF GOT IMPORTS OF 9.6 MILLION TONS IN 1975 AND 55 PERCENT OF 11.5 MILLION TONS IN 1976.

UNDER TERMS

OF 1973 TURKEY-IRAQ PIPELINE AGREEMENT (PIPELINE WAS INAUGURATED IN JANUARY, 1977), TURKEY RECEIVED "RIGHT" TO PURCHASE 10 MILLION TONS OF IRAQI-GUARANTEED THROUGH-PUT OF 15 MILLION TONS PER YEAR (INITIAL PIPELINE CAPACITY IS 25 MILLION TONS PER YEAR). TURKEY HAD HOPED TO OBTAIN DISCOUNT ON REPORTED IRAQI MEDITERRANEAN PRICE OF \$13.48 PER BARREL FOB YURMURTALIK. WHEN IRAQIS WERE UNWILLING TO COMPROMISE IN LATE 1976 AND EARLY 1977, TURKEY ATTEMPTED TO PURCHASE CRUDE FROM UAE, KUWAIT AND SAUDI ARABIA. ONAT EXPLOINED, HOWEVER, THAT COMBINATION OF RISING TURKISH DEMAND, SOMEWHAT LESSENED IRAQI INTRANSIGENCE, AND DELAY IN UAE, SAUDI AND KUWAITI RESPONSES HAVE PERSUADED GOT TO ACCEPT "LESS-THAN-FAVORABLE" PRICING AND SUPPLY AGREEMENT WITH IRAQ. THROUGHOUT DISCUSSION, ONAT USED FIGURE OF 17 MILLION TONS AS ANTICIPATED TURKISH CONSUMPTION FOR 1977, 11.5 MILLION FROM EARLIER GOT PROJECTIONS. TURKEY WILL THEREFORE NEED TO IMPORT ABOUT 14 MILLION TONS OF CRUDE DURING 1977 AT ANTICIPATED COST OF APPROXIMATELY \$1.5 BILLION, A SUM EQUAL TO 75 PERCENT OF TOTAL TURKISH EXPORTS IN 1976.

3. NEW AGREEMENT WITH IRAQ CALLS FOR TURKEY TO PURCHASE 10 MILLION TONS CRUDE DURING 1977, FOUR MILLION TONS FROM PERSIAN GULF BY APRIL 30 AND REMAINING 6 MILLION IN OFF-TAKE FROM IRAQI-LIMITED OFFICIAL USE

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TURKISH PIPELINE. ONAT WOULD NOT DISCUSS PRICE ARRANGEMENTS, BUT SAID TURKEY WOULD RECEIVE "SLIGHT" DISCOUNT OVER \$13.48 MED PRICE. 90 DAY CREDIT TERMS WHICH WORK OUT TO 24CENTS PER BARREL CONCESSION WILL ALSO BE GIVEN BY IRAQ. UNDER TERMS OF 1973 AGREEMENT, IRAQI PIPELINE TRANSIT CO. AND BOTAS, GOT PIPELINE COMPANY, WILL RECEIVE 25 AND 35 CENTS PER BARREL RESPECTIVELY AS TRANSIT FEE.

4. ONAT SAID THAT GOI WAS EXTREMELY TOUGH IN ITS NEGOTIATING STANCE. GOT HAD HOPED THAT IRAQIS WHO NEED MED OUTLET TO KEEP UP CRUDE EXPORTS WOULD SHOW WILLINGNESS TO COMPROMISE MORE. IRAQIS, HOWEVER, APPEARED WILLING "TO CUT OFF THEIR NOSE TO SPITE THEIR FACE" AND TURKS HAD TO ACCEPT "LESS-THAN-FAVORABLE" AGREEMENT. TWO OTHER PROBLEMS ON PIPELINE REMAIN PARTICULARLY OFFENSIVE TO GOT. FIRST IS QUESTION OF PRICE TURKEY SHOULD PAY FOR ITS PORTION OF CRUDE NEEDED TO FILL PIPELINE. UNDER 1973 AGREEMENT, IRAQ EXTENDED A CREDIT TO TURKEY (REPAYABLE IN FOUR ANNUAL TRanches BEGINNING IN EARLY 1978) FOR THIS "DEAD" OIL. GOT HAD HOPED FOR REAL CONCESSION ON PRICE HERE, BUT RECEIVED ONLY SLIGHTLY BETTER PRICE THAN ON NORMAL CRUDE PURCHASES.

SECOND PROBLEM WHICH REMAINS THORNY ISSUE BETWEEN TWO SIDES IS 35 CENTS PER BARREL TRANSIT FEE FOR IRAQI THROUGH-PUT WHICH IS TO BE PAID TO BOTAS. UNDER TERMS OF AGREEMENT, ANY CHANGE IN GOLD PARITY OF DOLLAR WAS TO AUTOMATICALLY LEAD TO COMPENSATORY ADJUSTMENT IN FEE. GOT FIGURES NEW FEE SHOULD BE BETWEEN 39-42CENTS PER BARREL,BUT IRAQIS HOLD TO 35 CENTS FIGURE. ONAT SAID GOT HAS TEMPORARILY ACCEPTED 35 CENTS FIGURE, BUT SAID GOT INSISTS THAT LARGE

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SCALE OPEC PRICE INCREASES SINCE 1973 AGREEMENT MUST ALLOW FOR HIGHER TRANSIT FEE FOR BOTAS. NETOTIATIONS HERE ARE CONTINUING WITH NO HOPE FOR EARLY SOLUTION.

5. TURKEY IMPORTED 2.6 MILLION TONS OF CRUDE FROM LIBYA DURING 1976 (SOME 20 PERCENT OF TOTAL CRUDE IMPORTS) AND, ACCORDING TO ONAT, PLANS TO PURCHASE 3 MILLION TONS DURING 1977. LIBYA GRANTS MINIMAL PRICE CONCESSIONS, BUT GIVES 3 MONTH CREDIT TERMS. DURING 1977, AND OCCASIONALLY IN 1976, TURKISH DELAYS IN PAYMENT LIMITED OFFICIAL USE

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HAD CAUSED SHARP LIBYAN REACTION, IN SOME CASES REFUSAL TO SHIP UNTIL OUTSTANDING DEBTS HAD BEEN CLEARED UP. LIBYAN DELAYS IN SHIPMENT HAVE CAUSED SPOT ENERGY SHORTAGES IN TURKEY, AND CONTINUED SHORTFALLS IN FOREIGN EXCHANGE ARE NOT LIKELY TO IMPROVE THIS SITUATION IN 1977.

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6. ONAT EXPLAINED THAT APPROXIMATELY 2.5 MILLION TONS OF CRUDE ARE IMPORTED ANNUALLY BY MOBIL FOR USE IN SHELL-MOBIL OWNED ATAS REFINERY. MOBIL'S ABILITY TO SOURCE OIL FROM DIFFERENT OPEC COUNTRIES DEPENDING ON PRICE AND SUPPLY IS BENEFICIAL FOR TURKEY. (COMMENT: IN 1975, HOWEVER, VIRTUALLY ALL CRUDE IMPORTED BY MOBIL CAME FROM IRAQ). WHILE MOBIL HAS HAD SERIOUS PRICING PROBLEMS WITH GOT IN PAST, THESE HAVE BEEN AT LEAST TEMPORARILY RESOLVED. MOBIL GIVES 90 DAY CREDIT TERMS AND HAS AGREED TO LOOK INTO POSSIBILITY OF GRANTING 180 DAY TERMS FOR GOT. IN EARLY 1977, GOT WAS CONSIDERABLY IN ARREARS IN ITS PAYMENTS TO MOBIL, BUT GOVERNMENT DECISION TO ENCOURAGE LIMITED OFFICIAL USE

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COMMERCIAL TURKISH BANKS TO USE FOREIGN CREDIT LINES TO PAY FOR OIL IMPORTS HAS IMPROVED THIS SITUATION DRAMATICALLY.

7. ONAT INSISTED THAT PRESS INTERPRETATION OF CAGLAYANGIL VISITS TO UAE, KUWAIT AND SAUDIA ARABIA IN MARCH AND APRIL 1977 AS EMERGENCY OIL BUYING TRIP TIMED TO PUT PRESSURE ON IRAQIS WAS EXAGGERATED. HE SAID TRIPS WERE PART OF CONTINUING TURKISH LONG-RANGE CAMPAIGN TO IMPROVE RELATIONS WITH ITS ARAB NEIGHBORS AND HAD NO ANTI-IRAQI OVERTONES. NEVERTHELESS, TURKEY IS INTERESTED IN DIVERSIFYING ITS SOURCES OF CRUDE SUPPLY AND CONSEQUENTLY IS WILLING TO PURCHASE UP TO THREE MILLION TONS COLLECTIVELY IN 1977 FROM UAE, KUWAIT AND SAUDIA ARABIA. NO AGREEMENTS HAVE BEEN SIGNED, HOWEVER, AND THREE GOVERNMENTS HAVE NOT YET REPLIED TO TURKISH REQUEST FOR SPECIAL TERMS AND CONDITIONS. NEED FOR THIS CRUDE IN 1977, OF COURSE, HAS BEEN SOMEWHAT ALLEVIATED BY IRAQI AGREEMENT. ONAT EXPLAINED, HOWEVER, THE TURKISH DESIRE TO DIVERSIFY SUPPLY, NEED TO HAVE ON-GOING NEGOTIATIONS WITH IRAQ, AND EXPANDING CONSUMPTION MAKE IT NECESSARY TO CLINCH DEAL BEFORE 1978. IN ANY CASE, TURKISH DESIRE TO PURCHASE CRUDE FROM SAUDIA ARABIA COULD BE SEEN AS ATTEMPT TO ELIMINATE OVER-DEPENDENCE ON IRAQ. PRIOR TO 1975 AND 1976 (WHEN TURKEY PURCHASED VIRTUALLY NO CRUDE FROM SAUDIA ARABIA), SAUDIS HAD BEEN MAJOR SUPPLIER TO TURKEY (55 PERCENT OF TTAL TURKISH IMPORTS IN 1972 AND 1973 AND 40 PERCENT (EQUAL TO IRAQ) IN 1974).

8. COMMENT

RAPIDLY GROWING PETROLEUM CONSUMPTION IN TURKEY IS PUTTING GOVERNMENT UNDER SEVERE FISCAL STRAIN. OFFICIAL PROJECTIONS OF NEEDED IMPORTS (ALREADY OUTDATED DUE TO BURGEONING DEMAND) MADE IN 1975 WERE 24 MILLION TONS IN 1980, 40 MILLION IN 1985 AND 50 MILLION IN 1987. PETROLEUM IMPORTS OF \$1.5 BILLION FOR 1977 WOULD BE 25 PERCENT OF TOTAL PROJECTED IMPORTS AND WOULD APPROACH 40-50 PERCENT OF TOTAL GROSS EARNINGS FROM EXPORTS AND NET INVISIBLES.

9. GOVERNMENT WHICH WILL COME TO POWER AFTER JUNE ELECTIONS AND WHICH WILL BE RESPONSIBLE FOR NEW FOURTH FIVE YEAR PLAN
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(1978-82) WILL BE FORCED TO DEAL WITH SERIOUSNESS OF PETROLEUM COST AND SUPPLY SITUATION. TURKEY, ALTHOUGH IT HAS MADE DECISION TO CUT-BACK TOTALLY ON NEW CONSTRUCTION OF OIL-FIRED ELECTRICITY GENERATING CAPACITY AND FOCUS INSTEAD ON COAL AND HYDRO, HAS NOT REALLY FACED UP TO POST-1973 WORLD CONDITIONS. GASOLINE PRICES ARE THE LOWEST IN EUROPE AND CONSUMER DEMAND FOR AUTOMOBILES (NET INCREASE OF 100,000 PER YEAR) IS AT AN ALL-TIME HIGH. IN ADDITION, TRACTORS ARE INCREASING AT A RATE OF 100,000 PER YEAR AS FARM MECHANIZATION GROWS RAPIDLY.

10. THE COST FOR TURKEY'S FINANCIAL AND POLITICAL INDEPENDENCE OF AN UNWILLINGNESS OR INABILITY TO MAKE THE ADJUSTMENTS NECESSARY TO LIMIT ITS DEPENDENCE ON IMPORTED PETROLEUM WITHIN THE NEXT FIVE YEARS COULD BE HIGH. ECONOMIC PROJECTIONS OF EXPORT AND INVISIBLE EARNINGS OVER NEXT FIVE YEARS INDICATE FINANCIAL RESOURCES ARE NOT LIKELY TO BE AVAILABLE FOR PROJECTED PETROLEUM IMPORTS. FURTHERMORE, SUCH HEAVY DEPENDENCE ON ITS ARAB NEIGHBORS, FOR ITS FINANCIAL SOLVENCY AND ECONOMIC DEVELOPMENT, COULD BRING INCREASED DOMESTIC AND FOREIGN POLITICAL PRESSURES TO BEAR ON TURKEY'S DEMOCRATIC AND PRO-WEST POLITICAL, SOCIAL AND ECONOMIC STANCE.
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Message Attributes

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